WARREN BUFFETT

The Ultimate Guide To Investing like Warren Buffet. Learn the Warren Buffet Way, the Warren Buffett portfolio, the Warren Buffett stocks

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Introduction

Everyone wants to be rich. It's one of the most common, universal goals, and yet, only 1 percent of the United States of America is extremely wealthy, while the other 99 percent are not. So what does it take to get wealthy? Certainly not only working hard at a steady job, as so many people do. If you truly want to be successful, you must enter into the world of stocks and investing in businesses, as Warren Buffett, once the richest man in the world (now no longer number one only due to the fact that he has given away billions to charity) does.

Thus, in this book, I will be talking all about Warren Buffett, from his life story to his business methods to his portfolio and more. Warren Buffett was able to make his way to the top with hard work, persistence, and above all else, smart investing. With a few tips in your mind, you should be able to achieve some degree of success in investing and building your wealth as well, though not perhaps at the level as Warren Buffett, of course.

You might be afraid to get involved in the stock market. After all, it sounds frightening and far away, like a concept from Wall Street filled with corruption and loss of money and frustration. But the reality is that investing is easier than it seems, and the fact of the matter is, if you follow Warren Buffett's methods, you will realize that investing is not a matter of watching day to day fluctuations in the market and getting dizzy at how inconsistent everything is, but rather, a matter of long term returns. Think in the long term, minimize risks, and get knowledgeable in what you invest in rather than investing in everything that sounds "legit," and you will find yourself succeeding and achieving more than you ever dreamed you could.

For example, I never knew much about the stock market until I stumbled across a book titled *The Warren Buffett Way* written by Robert Hagstrom that goes over Warren Buffett's investing principles. It is a method followed by many, many successful investors, and I hope that after reading this chapter, your understanding of the Warren Buffett Way will be greatly increased and you will find yourself able to follow it and succeed with it as well, as I have. From reading this book, my mind has been greatly opened in terms of the stock market, businesses, and the realm of entrepreneurship in general. I had had so many misconceptions and thoughts when it came to investing, all of

which were changed with this book. This book is truly eye opening, and I recommend that you give it a read, but if you find yourself without time, then the key points I cover from *The Warren Buffett Way* in chapter 2 should do.

Truly, investing is not hard to do if you get your facts straight and follow Warren Buffett's methods. I admit that I have lost money investing, but overall, I have earned a lot more. Even Warren Buffett himself has made mistakes, but look at his current empire of billions. Do not be discouraged by mistakes you make or money you lose. We will all make mistakes, but the important part is to push past them and learn from them. I hope that with this book you will be able to minimize your mistakes and risks and learn how to be a smart investor like Warren Buffett, and in turn earn your own fortune.

Even if you do not end up much wealthier or nearly as wealthy as Warren Buffett, you will at the very least gain insight into how the American economy works and how investing works, rather than being kept in the dark and having misconceptions about how Wall Street runs. It never hurts to have more knowledge, and personally, I have found myself more confident and less likely to be conned or pushed into things from my newfound abilities. I have also gained a lot more financial independence and am able to manage my own economic situation far better. No matter what you gain, I know you will gain something, so go ahead and give this book a read! Good luck, and have fun!

Chapter 1 - Warren Buffett's Road to Success

Warren Buffett is known today as a massively successful entrepreneur and investor. However, all successful people had to make their way from the beginning, Warren Buffett included. It is often both inspiring and a key to understanding to look at a successful person's journey to success, and so in this chapter I will go over how Warren Buffett got to the place he is at today, with over 72 billion dollars of net worth. While we all have our own stories and none will be the same as Warren Buffett's, it is still interesting and helpful to see his story, as it gives much necessary background that will help you understand who he is as both a person and businessman, giving you insight for later chapters in which I talk about the Warren Buffett Way, his portfolio, and more.

Warren Buffett was born in 1930 in Omaha, Nebraska. His father was a stockbroker later elected as a U.S. Congressman, causing his family to move to Washington, D.C., which is where Warren Buffett became interested in investing and math. Under his high school senior picture was written: "future stockbroker."

Warren Buffett actually began being involved in business at quite a young age; as a child, he was selling gum and magazines around the neighborhood, and at the age of 11, he bought stocks for he and his sister. He bought 3 shares at 38 dollars each, and while their value dropped at first, he refused to sell them, waiting until they rose to 40 dollars to do so. However, eventually the stock value of the stocks he bought rose to over 200 dollars, and he regretted selling them early. Warren Buffett now says that this was a valuable learning experience for him. Warren Buffett was also a math prodigy from a young age, being able to do large amounts of calculations in his mind.

At the age of 13, Warren Buffett filed his very first tax return, and claimed his bike, which he used in his job as a paperboy, as tax deduction. He continued to be extremely economical even as a youth, later on buying an old pinball machine, putting it in a barbershop, and using the profits to buy more, eventually selling his "business" for over a thousand dollars, while he only spent 25 dollars (to buy the first machine). When he was 14, he bought forty acres of farmland on which a tenant farmer worked for 1200 dollars. By the time Warren

Buffett finished college, his savings were 90,000 dollars.

Speaking of college, Warren Buffett attended the University of Pennsylvania's famed Wharton School of Business due to pressure from his father, as Warren Buffett himself would have preferred to continue being actually involved in business rather than attending college. He later transferred to the University of Nebraska-Lincoln, and after graduating, applied for Harvard Business School and was rejected. Instead, he attended Columbia University's business school, since he found out that his hero, Benjamin Graham, taught there.

After graduating from Columbia, he found out that Graham was part of GEICO insurance, and so he aimed to get a job there. After speaking to the vice president of GEICO for hours, the vice president found him extraordinary, and along with Warren Buffett's father, encouraged him not to work on Wall Street. Warren Buffett even offered to work Benjamin Graham without pay, but Benjamin Graham would not allow him to, so Warren Buffett returned to his hometown and started a firm there named Buffett Partnership, where he made many extremely successful investments by buying undervalued companies with stocks that quickly rose. He was dubbed the "Oracle of Omaha" and became very wealthy.

In 1952, Buffett married Susan Thompson and they had three children together. Warren made more and more partnerships in the meantime, eventually expanding to six, and after meeting Charlie Munger (who would later become his partner), his partnerships expanded even more. He found many partners willing to pool 10,000 dollars each, while he himself invested merely 100 dollars. He was wildly successful and became a millionaire in 1962, merging all of his partnerships into one large one.

Warren Buffett eventually bought Berkshire Hathaway, which, when it became selling high class shares in 1990, made Buffett a billionaire. During the Great Recession, Warren Buffett faced many difficulties and criticism, but was able to raise his company to the standard it was at before the recession. In 2008, Warren Buffett was named by Forbes as the wealthiest person in the world. After he donated billions of dollars to charity, he fell to the second wealthiest person in the world behind Bill Gates. He has pledged to donate 99 percent of his wealth to charity, not out of guilt but to enable the economy to flow.

As you can see from Warren Buffett's success story, he began venturing into business and investing at a young age, and from smart

investments and an attitude in which he went out of his way and was persistent in getting what he wanted, was able to achieve great wealth early on in his life. And throughout it all, he has remained unarrogant, donating much of his wealth and taking on a relatively low salary.

Chapter 2 - The Warren Buffett Way

The Warren Buffett Way is a book written by Robert Hagstrom that goes over Warren Buffett's investing principles. It is a method followed by many, many successful investors, and I hope that after reading this chapter, your understanding of the Warren Buffett Way will be greatly increased and you will find yourself able to follow it and succeed with it as well.

For starters, Warren Buffett has four principles. First, buy businesses that have good prospects in the long term; they should be ones that will last and grow far into the future, not fads or dying companies. Secondly, buy companies for far less than they are worth; this means that you should buy businesses that are undervalued. Thirdly, buy businesses that give a high return when it comes to investment capital. Finally, look for honesty and integrity when purchasing businesses; find ones with honorable managers.

Now, Warren Buffett's approach is centered around businesses' values and market prices. This means that when he discovers a company he is interested in and invested in, he behaves not as a mere side stock market member, but as a company owner. He will study everything about the business he invested in and provide time, energy, and dedication. He becomes an expert that works with the people in the business, not against them, and this sets him apart in the battlefield.

When it comes to investing itself, Warren Buffett's approach involves not following daily stock market fluctuations, but rather, he keeps a long term perspective. The stock market is only there to make selling and buying easier, not to place values on things, and so only use the stock market in the short term to find good deals that sometimes pop up. His reasoning behind this is that people are what make or break the market, and in the short term, investor's sentiments get in the way, while in the long term, stock value is set by company economic progress.

Do not analyze the overall, big picture economy, since this will get you nowhere. Buy businesses, not stocks; this does not necessarily mean you literally must buy out the entire business. This means that if you are a stockholder, make an effort to know the business. Be sure you can understand what the company is about. Pay attention to

equity return and not how much you make on each share, and always make sure you have a portfolio of all your businesses since you must place priority on the businesses not stocks.

Some background on Warren Buffett's investment technique that will be helpful to know is that it is based upon two mentors' strategies: Benjamin Graham and Philip Fisher. Warren Buffett took from Benjamin Graham the idea that you need a margin of safety; you must have hard number, strict guidelines when you buy stocks. He also took from Benjamin Graham the idea that stocks are long term rather than short term, so there is no point in following them on a daily basis.

Warren Buffett took from Philip Fisher the idea that businesses' managements are crucial to business values. Integrity matters when it comes to purchasing businesses, and one must look at individual company managers rather than just the outside company values. He also learned from Philip Fisher that not putting your eggs in the same basket actually ups risk rather than decreasing it since it will be harder to pay attention to all of the different things going on in your hands. When looking for businesses, look for ones that are consistent, since these will be less risky than one that has performed well, but only during a certain time.

The Warren Buffett Way also encompasses the idea that you should not be discouraged if you do not have enough capital to invest large amounts. Warren Buffett himself has earned much of his fortune in getting partnerships and investing other people's money; this is smarter as you get more capital to invest with less personal risk. Also, calculate "owner earnings" on your own when you invest in order to make sure that you are risking less. According to Warren Buffett, there is no such thing as risk if you are knowledgeable enough, and this is very much true. Do not do anything that you know is inherently risky and if you do take "risks," they should be based upon past experience and knowledge, making them actually not truly risky.

Chapter 3 - The Warren Buffett Portfolio

A portfolio, as defined in terms of finance, is a group of investments held by a single entity such as an investment company, hedge fund, or even an individual themself. These investments include stocks, bonds, etcetera. To help the average enthusiast understand the terms, I will first define the two types of funds people will most commonly invest in: mutual funds and hedge funds.

Mutual funds are the safest option for a beginner investor to choose to invest their money in, as they are collections of a large group of investors for a variety of stocks. This means that if a stock fails, the negative fallout is widely dispersed amongst all those investors. It will affect you much less than the other type of investment, a hedge fund, would. In contrast, a hedge fund is commonly used amongst wealthy investors. They are comprised of a smaller group are investors and managed by a few wealthy individuals. This has the potential of a big risk big payoff system. If a stock succeeds, there's less people to split a portion of a pie with, meaning more reward for everyone. If a stock fails, it means people lose more money since they have invested a larger portion of their money into the hedge fund.

Knowing all this, Warren Buffett's portfolio is managed by his holding company, Berkshire Hathaway, of which he is the largest shareholder and CEO. The company has complete control of many subsidiary companies, one of the most important being GEICO (also known as the Government Employees Insurance Company), a well known top automobile insurance company. Berkshire Hathaway is valued at approximately two hundred billion US dollars, while the net worth of Warren Buffett is approximately seventy two billion US dollars. A fun fact you might not have known about Buffett was that his becoming CEO of Berkshire Hathaway, an extremely lucrative investment company, was originally a mistake as a result of a personal insult at the previous owner of Berkshire. Originally he planned to sell the shares he had bought at the agreed upon price of eleven dollars and a half per stock.

However, when the owner tried to undercut Buffett by sending an agreement to buy the stocks at eleven dollars and three eighth per stock, Buffett decided to buy out the entire company so that he could fire the then past owner. As claimed by Buffett in 2010, buying out Berkshire was what he deemed his biggest investment mistake that he had ever made. How, you might ask? Well, he said that the money he

had used to buy out the company could have been invested in several other endeavors that would have multiplied his monetary return several hundred times more than what he received from Berkshire. This goes to show you that investing is truly a luck based game when it comes down to it, although there are tips that a fresh investor should definitely know to avoid losing all of their investments in risky deals.

Overall, Warren Buffett's portfolio is comprised of several large and successful conglomerates like Wells Fargo and Coca Cola, which he bought decades ago before their popularity really exploded. The financial term for this time of investing is "value investing." It's an idea created in part by Ben Graham, a late professor of Columbia Business School who taught Buffett when getting his degree and remained a close friend during his lifetime. The basic idea of value investing is buying securities whose market price is less than the intrinsic value, or true value, of the security.

The higher the difference, the higher margin of safety the security is. The security is a financial asset that can be a stock or another mechanism in finance. This works best of course in cases of things with tangible assets like stocks in comparison to intangible returns from constructs like patents.

However, value investing can be risky since a lot of the success of the investor is dependent on how much inside information the investor has in advance. This requires having connections to insiders of the company and having the ability to get crucial information before other investors can. Obviously, not everyone has access to resources like that, so there are things like index funds. Index funds have been directly recommended by expert investing professionals like John Bogle, Warren Buffett, and Charlie Munger (Buffett's close friend and vice chairman of Berkshire Hathaway). What makes invest funds ideal for an investor is their low risk factor, since they are a specific type of mutual fund with an extremely high diversity of stocks with low prices and high tax efficiency (lower taxes than normal).

Ultimately, realize that Berkshire Hathaway was obviously not created in a day to become the financial giant that it is today. The company originally began as a textiles company and was on the brink of failing when Buffett became the CEO and steered it in the direction of an investment company. Forming a portfolio is difficult and takes a lot of research in order to ensure the maximum return with as little loss as possible. 'Outsiders' to the industry are automatically at a disadvantage when it comes to knowing the best enterprises to invest in, so be confident but not too confident at the same time.

It will take a lot of time, and there are never any guarantees in a field as tumultuous as investments, but odds are that you can make a small profit as long as you invest smartly. And by smartly, I mean knowing not to rely on a single investment, basically putting all your eggs into one basket. In the end, no matter how safe and stable an investment seems, they all stand at least a small possibility of failing and crashing. One such crash that had widespread effects across the world was the financial crisis of 2007 and 2008, which I will explain in relation to how you should properly invest in stocks like Warren Buffett in the following chapter.

Chapter 4 - The Warren Buffett Stocks

Berkshire Hathaway offers two types of stocks for potential investors to purchase. The first kind of stocks, Class A shares, are the original stocks sold by Berkshire. These are the highly stable, not risky stocks that are valued at expensive prices that can go as high as over several hundred thousand dollars per share. The reason these shares are valued at such a high price is due to the fact that the CEO Warren Buffett has avoided stock splitting.

Stock splitting is a practice that increases the number of stocks per shareholder but lowers the price of each stock accordingly. Pretend for example that you have ten shares you bought for one hundred dollars each. Stock splitting would make you the owner of twenty shares that are valued at only fifty dollars each. This is important because it means that Berkshire Hathaway is knowingly decreasing the liquidity of their shares and lowering the trading volume of shares.

The strategy is meant to keep the shares in the hands of a select few investors that the company is familiar with. It is thought that if they stock split, the company's shares will fall into the hands of newer investors that are more risky and unknown factors that have the chance of defaulting. By refusing to split stocks Berkshire effectively keeps their shares at higher prices and in the hands of trusted investors. The Class B shares in comparison were created after the Class A shares. Buffett was hesitant about introducing the Class B shares because it meant that there would be more risk involved in comparison to the trust of the Class A shares. However, the Class B shares were meant to be more accessible to the general populace as they are cheaper and have undergone multiple stock splits to land in the hands of many different people.

How does this relate to how you should invest in stocks successfully? Well, for a start, the conflict between Class A and Class B shares in Berkshire is reminiscent of something that lead to the subprime crisis of 2007 to 2008. It is highly likely you remember the crash of the housing bubble and its after effects worldwide, but do you know how that bubble was created? It all relates back to stock investors.

With the repeal of the Glass-Steagall Act, the limits it placed on

commercial security trading was lifted. This meant banks and other entities could make riskier deals when choosing to lend to buyers and so on. To understand the basics behind the subprime crisis, I will explain a few vital terms involved that you might have heard before. The word "subprime" itself equates to risk. The loans are riskier because the people who take on the mortgages, etcetera are not as safe to rely on for paying them off. There is a greater risk of the subprime borrower to default when they buy things like houses on credit, and the housing market crash was the collection of an entire society of subprime loans defaulting when the borrowers could not pay off their loans.

The loans themselves were bundled together in a financial device known as a CDO (collateralized debt obligation) that is then sold to an investor such as yourself. In addition to these CDOs become riskier and riskier to buy as banks lent money on credit to subprime buyers, banks were also using huge amounts of leverage. Leverage is basically borrowing money, investing it, and then returning the borrowed money and keeping the leftover return. Obviously, the higher the leverage, the more you profit. For example, if you borrow ten dollars and invest it into a return that you get one hundred fifty percent return from, then you make fifteen dollars with a five dollar profit. Now, if you borrow one hundred dollars and invest for the same return of one hundred fifty percent, you make one hundred fifty dollars with a fifty dollar profit. Of course, these calculated risks are not foolproof. The more money you borrow, the higher the risk becomes if those investments made failed. The collective effect stemming from the subprime lending, CDOs, and leverage created the housing bubble that made the market seem stable and on the rise, and led to the drastic drop and recession that we are still feeling the effects of.

Knowing that this all resulted from investments people consciously chose to made, realize that the market is not purely based on luck game. Though a lot of it is chance, there is also a lot of common sense that the average investor should use to make smart choices that have a higher chance of succeeding. It might be tempting to try and recreate the stereotypical rags to riches story by investing in very risky stocks on the slim chance of it succeeding and becoming a huge conglomeration like Microsoft, but realize that the chance that will happen is indeed practically one in a million.

Everyday, investors who are experienced and Ivy League-taught lose millions on the unexpected fluctuations of the market. If you are

reading this book, you are probably hoping that there is some complicated but not uncrackable formula to getting rich quick and easily on the stock market, but the truth is there isn't. All that exists are educated guesses in which stocks to invest in by watching trends and having the advantage of insider knowledge of a certain company to know where you should trust your money.

Chapter 5 - Motivational Warren Buffett Sayings

Every successful person has mottos they live by and advice they keep close to their heart. They work hard and are extremely motivational, and Warren Buffett is no exception. In fact, he has many amazing quotes, all of which encompass both who he is as a person and as a business magnet.

Now that you are on your way to becoming a smart investor, take a look at a few of Warren Buffett's words. They are insightful, wise, and may just give you an extra boost of inspiration, confidence, or understanding. Below each quote, I talk about what exactly Warren Buffett is trying to say and what you can take from what he says.

Now, you may not think that quotes are really necessary to learning the Warren Buffett Way, but do not discount them. They may seem minute, but words can be powerful, especially considering the power behind the man who spoke them. Even the smallest of details can make a difference in the long run, and getting familiar with Warren Buffett's quotes can do no harm. At the very least, you will gain more insight into who Warren Buffett is and feel motivated to get going into your journey to wealth. At the very most, you will truly figure out what precisely Warren Buffett's secrets are and be able to add to your own strategies and understanding of business and investing. No matter what you gain from these following quotes, I hope that you will find them as worthwhile as I did.

> *1."Someone is sitting in the shade today because someone planted a tree a long time ago."*
>
> Never take anything for granted. Nothing comes from nothing; you need to consider where your gains are coming from rather than focusing on the gains themselves. Everything comes with a price, so keep your eye out on the smallest of details as well as the past. Appreciate foundations laid and lay strong foundations of your own so that you can benefit in the future.
>
> *2."It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."*
>
> Reputations are difficult to build. They take a long time are

are so easy to destroy, so be careful what you say and do in both the public eye and in private. Do not screw up relationships with companies and with individuals. Once trust is broken, it is nearly impossible to gain back, and is it worth it? No, because messing up happens in an instant. In an instant, all of your hard work could be for nothing, so keep this in mind in order to avoid mishaps.

3.“The most important thing to do if you find yourself in a hole is to stop digging.”

Chances are, if you are in financial trouble or find your situation getting worse and worse, you yourself are the perpetrator. Sometimes, it is good to take a step back and evaluate where you are. If you keep losing money investing, stop investing. Do not make your loss any larger. Always note your own situation and be able to recognize when you have gone too far.

4.“Price is what you pay. Value is what you get.”

There’s a difference between what you pay and what you get. Price is not necessarily a reflection of quality. Look carefully at value, or quality, and try to pay less for better value.

5.“Honesty is a very expensive gift, Don't expect it from cheap people.”

Being cheap is not necessarily good. Be cautious when dealing with those who are stingy, as you may get cheated on. Look for those who are generous to ensure integrity, because people who do not give are selfish and therefore more likely to lie.

6.“There comes a time when you ought to start doing what you want. Take a job that you love. You will jump out of bed in the morning. I think you are out of your mind if you keep taking jobs that you don't like because you think it will look good on your resume. Isn't that a little like saving up sex for your old age?”

Do what you love. This may seem obvious, yet so many of us do exactly what Warren Buffett says not to. Do not think of things in terms of your resume. By the time you do manage to build your

resume by doing things you disliked, it will be too late to start doing what you love. Do what you love first, because the opposite order makes no sense.

1."No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant."

Do not expect everything to come quickly and easily. Certain things need time, so be patient and do not rush.

2."Rule No. 1 : Never lose money. Rule No. 2 : Never forget Rule No. 1."

These may seem like impossible rules, but do not worry. Nobody is perfect; you will always make mistakes, but if you keep these rules in mind, you will find yourself making less.

3."It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction."

Being with better people will force you to better yourself. Being with people with qualities you do not want or who are worse than you will bring you to their level. Who you associate yourself with becomes who you are.

4."Risk comes from not knowing what you're doing"

There should never be such thing as risk if you are knowledgable. If you know things, then the risks you take are not really risks since you will know what the payout should be. Learn from experience and from facts and never make guesses that have no foundation.

5."Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

If things are getting worse or have been bad for a while, do not be so stubborn as to continue to try to fix your situation, especially if you have tried many times before and failed. Sometimes, it is wisest to move away from something and do something new or start over altogether. It is never cowardly

to walk away, even from something you have spent a lot of time on. Do not let sentiment or yourself get in your own way. Look at things clearly and not always from your own perspective, which can be biased.

6."There seems to be some perverse human characteristic that likes to make easy things difficult."

We, as humans, like to make everything harder than they need to be. Simplify, simplify, simplify. Not everything is as hard as you make it out to be. Take a step back if you find yourself overcomplicating things. Sometimes the basics are all we need to succeed.

7."In the business world, the rearview mirror is always clearer than the windshield."

The past is always something we can learn from when it comes to business. Do not always look straight ahead, as this may seem like the obvious way to get ahead, it is not. You do not know what will happen in the future, and plunging straight ahead into the unknown is never a wise step. Be careful and learn from past experiences of those around you and your own mistakes.

8."The difference between successful people and really successful people is that really successful people say no to almost everything."

Saying yes to every single thing presented to you may seem like the quick way to achieving success, but often, doing less is more. If you want to be truly successful, you have to know when to back off or reject things, and you will find that this comes more often than not. Most things are not optimally beneficial in the long run. Do not waste your time on minor things, but rather look for big projects that will maximize benefits.

9. *"I bought a company in the mid-'90s called Dexter Shoe and paid $400 million for it. And it went to zero. And I gave about $400 million worth of Berkshire stock, which is probably now worth $400 billion. But I've made lots of dumb decisions. That's part of the game."*

Do not worry if you make big mistakes. Everyone makes them, including Warren Buffett. He has thrown away millions of dollars due to poor choices, but look at him now. He is one of the richest men in the world, and this goes to show that you should not let mistakes you make, no matter how big, hold you back or bring you down. Move on from them. Learn from them. But never let them discourage you or make you think that you are destined to be a failure, because you will move past them.

Chapter 6 - Final Warren Buffett Investing Tips

Having read the success that Warren Buffett has achieved in making a few smart investments that paid of well, what can you do to achieve even a fraction of that success? While it is true that not many of us will ever achieve the same degree of financial success that Buffett has, it is definitely possible to make a small and tidy profit if you know these investing tips and keep them in mind when venturing out into your first investing endeavor.

TIP #1 - The Time is Now

Knowing that the US has just gotten out of (or is still in the midst of?) the huge recession of 2008, it might make you shy away from investing in the weak market. In the early days of the housing crisis, stockholders were panicking and quickly trying to sell all their stocks as soon as possible before the value dropped any farther. Of course, this effect on a macroeconomic Keynesian perspective is completely destructive, as it only weakens the economy further and hastens the fall. But rather than losing hope and selling stocks with the rest of the general public, Buffett and his vice chairman Charlie Munger took advantage of the current lowered stock prices to pick up bargain deals that will no doubt pay off when the economy revives itself.

Notwithstanding the inevitable pessimists that will crop up, the economy is on the way to its upswing once more, and the cycles of boom and bust it goes through are perfectly normal. The longer the boom, the harsher the bust, and already the economy has been seen to be improving daily. If you want to try investing stocks then you can just catch the tail end of the bargain period with lowered prices before the value begins increasing once more alongside the economy.

TIP #2 - Think of the Long Term when Choosing which Stocks to Invest In

Buffett claims that there is a general misnomer that stocks are a risky business, and while this is true, as long as you think of the long term it isn't really. The key is creating a diverse portfolio, so when value declines in stocks will inevitably occur, they won't be as much of an issue. If you think in the long term, a short term fluctuation in prices isn't that much of an issue as long as the overall trend of the stock is a value increase.

However, Buffett does list the mistakes that can change a long term stock's potential value. If the owner of the stock keeps an undiverse portfolio then there is a higher risk of a crucial stock in the portfolio failing. Paying exorbitant prices to hire financial advisers and managers do not always pay off in the end. The risk of borrowing high amounts of leverage on credit to invest in stocks that fail and must be paid back, as discussed earlier in the chapter on Warren Buffett Stocks.

TIP #3 - Do Not Place Your Trust in Claimed Stock Market Experts

If you have the money (or even if you don't), it can be extremely tempting to hire a proclaimed professional and expert at 'playing' the stock market. They might show you their successful record, highly qualified Ivy League education, and impress you with their sophistication, but Buffett points that the market is highly unpredictable.

No matter how much or how hard someone may claim they have the formula or trends of the market figured out, Buffett notes that in reality even he cannot predict the future on what happens with stock prices. As a result, do not waste your money hiring countless overpriced financial advisers for your stocks. They might have an educated prediction, but a clear counterexample would be the housing bubble crash that I have referenced throughout this book. Although some business moguls predicted the bubble crash coming, many other people just as prominent, such as the then chairman of the US Federal Reserve Alan Greenspan, singlemindedly claimed that the economy was not on the cusp of a downswing. As quoted from Buffett, "anything can happen anytime in the markets," so learn not to grow comfortable and assume a trend will continue. Count on the unpredictability and make contingency plans. Above all, the stock market is an extremely mercurial and dynamic environment.

TIP #4 - Be Decisive and Confident in your Decisions

If you know the right thing to do, do not try to drag on the process due to sentimentality or other such reasons. Although there are claims of the mythical ‘instinct’ when it comes to the stock market, most of the times logic will prevail. One of the anecdotes Buffett commonly resorts to is the example he makes of Tesco, a British chain of supermarkets that began failing. Although he had sold millions of portions before the crash, he was reluctant to completely sell all of the stocks and continued at a leisurely pace, something referred to by his partner vice chairman as “thumb sucking.”

This ultimately resulted in the loss of more than four hundred million dollars in terms of stock values. As much as the stock market cannot be predicted, that does not mean that you should drag things past their expiration date in the hopes of something unpredictable magically saving the stock. Always prepare for the worst case scenarios and follow through on what your mind is telling you with confidence.

Conclusion

Having now finished reading this entire book based upon Warren Buffett's life, investing strategy, thought process, and tips, I hope that you have had your misconceptions of the stock market corrected and leave with the basic knowledge required to become a smart investor. The stock market has developed a reputation among the people of the world as a mystical entity. It has become a realm with the top closed in on Wall Street with a circle of seemingly impenetrable suits even though the reality is that anyone can become an investor.

Although the average Joe might be at an immediate disadvantage in terms of safety funds and insider knowledge on the best deals and short term fluctuations of a stock, there are most definitely options such as mutual funds like index funds that are easy to use and relatively safe in comparison to filling a portfolio with a narrow range of risky securities. Of course achieving success like Warren Buffett is difficult for even the most well off people. Truly, the degree of wealth and investment return Buffett has achieved cannot be replicated even with sheer dumb luck on the most profitable investments. And who would expect it to happen? The most important thing about the stock market is making sure you can hold on to the stocks in your portfolio and keeping that stable portfolio without huge losses. Buying Disney stock for your children is a fun thing to do, but there isn't much fluctuation in a stock as old and established as Disney. Once you familiarize yourself with the terms of the finance world, it's a lifelong learning process. Although the market is unpredictable in the short term, the larger cycles can be predicted in general terms.

Hopefully you aren't against reading long and potentially dense texts, as it can be incredibly useful reading the ideas of past economists and business moguls from Keynes to Milton Friedman. The stock market dips closely into surrounding areas of study such as economics, the study of the use of goods in a society. Economic concepts can be closely related to the stock market, especially in subjects like game theory, etcetera. Investing is at the same time more simplistic and complex than you previously imagined. While it can be interesting and useful, it isn't necessary at all to investing.

However, it can make the difference between a decent investor

and a great one. Find ways to make the reading more interesting. A lot of the issues argued about are still hugely relevant today in terms of economic policies and the positions of different candidate positions in politics and presidential campaigns. It can help increase your knowledge of the differences between each person running for office and become more aware overall of the state of the economy rather than living in ignorance to what is causing our economy to change. In today's global economy, the effects of a market crash in another country, such as the high risk created by Greece's current debt crisis, can have a resounding effect on your daily life as well. The housing bubble crash affected every country in the world except for those that weren't heavily involved in trade, such as North Korea. By knowing and understanding world events, you gain a larger idea of your individual security in the world and the best course of action you should take. It forces you to step back and take a larger perspective of the world in mind, which undoubtedly has a multiple number of benefits beyond just the financial.

Learning how to invest automatically makes you a more conscious person of the events happening around you, so that you don't simply go in the direction of the crowd. After all, the vast majority of people in life are those following these 'green lights,' signals that are thrown off by the possibility of making a profit. Did you know that a bubble can be prevented as long as a large enough number of people realize that a bubble is forming? People who don't know any better instinctively follow the 'green lights' they hear about that they actually know little about most of the time, whether it be buying a house that you really can't afford on credit because the market is going up or taking out a loan when you have no savings to pay off the installment plan.

Even if you don't actually end up investing in anything, the knowledge is still good to have in terms of becoming a more aware person. The effect that beginning to understand how the economy works will change your life forever; it certainly did mine! People constantly make fun of politicians for their policies, economic especially. After all, the money and resources is what controls our health care, social security, welfare programs, and many more areas that you wouldn't originally think would be related. But when you peel away all the different layers and get down to the nitty gritty of it all, everything in life is ultimately ruled by the money. And ultimately, this knowledge is what gives a person power over their own life and the lives of the people that your money touches (thus being the entire world). As you learn more about investing and the

relationship of money on your journey to discovering yourself and how the world works, I hope you will not only learn how to make smart financial decisions, but also gain a better understanding of society and the way the economy is run.